

Message Text

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FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 1922
INFO ALL EC CAPITALS
AMEMBASSY PARIS
USMISSION GENEVA

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PASS AGRICULTURE ELECTRONICALLY
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SUBJ: EC DAIRY MARKET SITUATION

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(C) EC BRUSSELS 12095

1. SUMMARY: A COPA PAPER APPRAISING THE EC DAIRY SITUATION FORECASTS A SUBSTANTIAL DECREASE IN NFDM STOCKS AND ONLY A SLIGHT INCREASE IN BUTTER STOCKS IN 1977. COMMISSION OFFICIALS GENERALLY REGARD THE COPA ESTIMATES AS TOO OPTIMISTIC; HOWEVER, THEY AGREE THAT THE DAIRY STOCK SITUATION WILL PROBABLY BE CONSIDERABLY BETTER THAN FORESEEN EARLIER. DESPITE A PREDICTED 2.6 PERCENT INCREASE IN MILK
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DELIVERIES, 1977 PRODUCTION OF BUTTER AND NFDM IS EXPECTED TO BE DOWN--DUE PRIMARILY TO INCREASED CHEESE PRODUCTION.
END SUMMARY.

2. A COPA (EC-WIDE COMMITTEE OF PROFESSIONAL FARMER ORGANIZATIONS) OFFICIAL HAS GIVEN US A BRIEF PAPER APPRAISING THE 1977 MARKET SITUATION IN THE EC DAIRY SECTOR. THIS

PAPER, WHICH IS DATED JULY 26, 1977, CONTAINS SUPPLY/ DEMAND BALANCES FOR NFDM AND BUTTER, AS WELL AS ESTIMATES OF 1977 MILK PRODUCTION, DELIVERIES, ETC. IT WAS PREPARED BY COPA FOR THE SEPTEMBER 6 - 8 MEETING OF THE US CHAMBER OF COMMERCE AND COPA IN THE U.S. HIGHLIGHTS OF COPA'S APPRAISAL ARE SHOWN BELOW.

3. THE PAPER NOTES THAT THE DECEMBER 1976 CENSUS SHOWED A SLIGHT INCREASE OF 0.5 PERCENT IN THE EC DAIRY COW HERD. THE EC IS SEEN AS BEING AT THE BEGINNING OF AN UPWARD CYCLE IN THE COW HERD. OFFSETTING THE CYCLE IS THE EC PROGRAM FOR NON-MARKETING AND CONVERSION PREMIUMS; THIS PROGRAM IS EXPECTED TO TAKE 500,000 COWS (ABOUT 1 PERCENT OF HERD) OUT OF MILK PRODUCTION IN 1977 AND 1978. DURING THE JANUARY - JUNE 1977 PERIOD, THERE WAS AN INCREASE OF MILK DELIVERIES OF ABOUT 0.2 PERCENT IN COMPARISON WITH 1976. HOWEVER, DELIVERIES ARE EXPECTED TO BE UP BY 2.6 PERCENT IN 1977 AS A WHOLE. THUS, A SURGE IN THE SECOND HALF 17 PRODUCTION IS ANTICIPATED DUE TO GOOD WEATHER (PARTICULARLY IN COMPARISON TO THE DROUGHT CONDITIONS OF THE LAST HALF OF 1976) AND MORE FAVORABLE PRICES FOR PROTEIN FEEDS.

4. BECAUSE THERE HAS BEEN A SUBSTANTIAL INCREASE IN CHEESE PRODUCTION, COPA DOES NOT EXPECT THE INCREASE IN MILK DELIVERIES TO BE REFLECTED IN HIGHER BUTTER AND UNCLASSIFIED

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NFDM PRODUCTION. IN THE FIRST 6 MONTHS OF 1977 CHEESE PRODUCTION WAS UP BY 4.4 PERCENT WHILE PRODUCTION OF BUTTER WAS DOWN BY 6.1 PERCENT AND PRODUCTION OF NFDM DOWN 10.5 PERCENT DURING THIS PERIOD. ALTHOUGH THERE IS SOME FEAR THAT THERE WILL BE A SLOWDOWN IN CHEESE PRODUCTION IN THE LAST PART OF THE YEAR, THE MARKET IS APPARENTLY CONTINUING TO HOLD UP WELL AT THIS TIME.

5. THE COPA LANCE SHEETS FOR NFMD AND BUTTER ARE SHOWN BELOW. IN CONTRAST TO EARLIER COMMISSION ESTIMATES (REF. A), THESE BALANCE SHEETS SHOW A SUBSTANTIAL REDUCTION IN NFDM STOCKS BY THE END OF 1977, AND ONLY A MODEST INCREASE IN BUTTER STOCKS BY THE END OF THE YEAR. WE HAVE DISCUSSED THIS BALANCE SHEET WITH A NUMBER OF OFFICIALS IN THE COMMISSION'S DAIRY SECTION. THESE OFFICIALS FEEL THAT THE COPA BALANCE SHEETS ARE TOO OPTIMISTIC; HOWEVER, THEY SHARE COPA'S GENERAL CONCLUSION THAT THE STOCK SITUATION AT THE END OF 1977 WILL NOT BE AS BAD AS FORESEEN (BY THE COMMISSION AND OTHERS) AT THE BEGINNING OF THE YEAR. THE VARIOUS ELEMENTS OF THE BALANCE SHEETS ARE DISCUSSED IN THE SUBSEQUENT PARAGRAPHS:

BUTTER 000 TONS

1977

OPENING STOCKS	
(PUBLIC AND PRIVATE)	260
PRODUCTION	1,700
IMPORTS	130
TOTAL AVAILABLE	2,090
CONSUMPTION	1,480
(INCL. U.K.)	(390)
SPECIAL MEASURES	123

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TOTAL CONSUMPTION	1,603
EXPORTS AT WORLD MARKET PRICES	160
FOOD AID	45
TOTAL EXPORTS	205
CLOSING STOCKS (PUBLIC & PRIV.)	277

NFDM 000 TONS
1977

OPENING STOCKS	1,139
PRODUCTION	1,980
TOTAL AVAILABLE	3,119
CONSUMPTION AT MARKET PRICES	295
CALF REPLACERS	1,250
FEEDS (PIGS & POULTRY)	550
TOTAL CONSUMPTION	2,095
EXPORTS AT WORLD MARKET PRICES	125
FOOD AID	150

SPECIAL MSURES	15
TOTAL EXPORTS	290
CLOSING STOCKS	734
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6. NFDM. A) COPA ESTIMATES NFDM PRODUCTION WILL BE DO ABOUT 100,000 TONS FROM LAST YEAR'S LEVEL. THE COMMISSION HAD EARLIER FORECAST AN INCREASE OF ABOUT 150,000 TONS IN NFDM PRODUCTION. HOWEVER, THEY SAY THAT THEY FIND THE COPA ESTIMATE TO BE REASONABLE IN VIEW OF THE HIGH LEVEL OF CHEESE PRODUCTION THIS YEAR AS WELL AS HIGHER LEVELS OF PRODUCTION OF WHOLE MILK POWDER, CONCENTRATED MILK, AND CASEIN. THE NEW EC SUBSIDY PROGRAM FOR FEEDING OF LIQUID SKIM MILK MAY ALSO marginally REDUCE NFDM PRODUCTION.

B) THE COPA ESTIMATE FOR CONSUMPTION AT MARKET PRICES IS CONSIDERABLY HIGHER THAN THAT CARRIED BY THE COMMISSION. THIS FIGURE, WHICH IS CALCULATED AS A RESIDUAL, IS ESTIMATED AT ABOUT 200,000 TONS BY THE COMMISSION.

C) COMMISSION OFFICIALS THOUGHT THE COPA ESTIMATE FOR THE USE OF NFDM IN CALF FEED WAS REASONABLE. THEY NOTED THAT THE TIGHTENING OF EC REGULATIONS IN THIS AREA (I.E. THE INTRODUCTION OF A MINIMUM INCORPORATION REQUIREMENT) D LARGED THIS OUTLET.

D) COMMISSION OFFICIALS FELT THAT THE ESTIMATE OF 550,000 NS OF NFDM GOING INTO PIG AND POULTRY FEED WASTO HIGH. HOWEVER, THEY FELT THAT THE AMOUNT OF NFDM MOVED INTO THIS OUTLET ULD BE HIGHER THAN THE 400,000 TONS FORECAST RLIER - PERHAPS 450 TO 500,000 TONS.

E) COMMERCIAL EXPORTS WERE FELT TO BE REASONABLE, PERHAPS EVEN A LITTLE LOW. THE COPA ESTIMATE OF FOOD AID, ON THE OTHER HAND, ITS FELT TO BE TOO OPTIMISTIC. COMMISSION OFFICIALS FORESAW MOVEMENT OF PERHAPS UNCLASSIFIED

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100 TO 120,000 TONS INTO FOOD AID.

7. COMMISSION OFFICIALS QUALIFIED THEIR COMMENTS BY REFERRING AGAIN AND AGAIN TO THE MANY UNCERTAINTIES ON E MARKET IN RTICULAR WITH REGARD TO THE EFFECTIVENESS OF A NUMBER OF NEW EC PROGRAMS WHICH ONLY RE-

CENTLY CAME INTO EFFECT (E.G. SUBSIDIES FOR LIQUID SKIM MILK FEED AND FOR FEEDING OF "FRESH" NFDM TO PIGS AND POULTRY). CONSEQUENTLY, THEY WERE RELUCTANT TO GIVE EXACT FIGURES. THEY DID NOT FEEL THAT A REDUCTION OF STOCKS TO THE RATHER LOW FIGURE OF 734,000 ESTIMATED BY COPA WOULD

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OCCUR. HOWEVER, THEY DO EXPECT STOCKS AS OF DECEMBER 31, 1977 TO BE SIGNIFICANTLY LOWER THAN AT THE END OF 1976. THEY FELT THAT THE MAXIMUM STOCK CARRYOVER WOULD BE 1 MILLION TONS.

8. BUTTER: A) COPA PREDICTS A DECLINE OF 50,000 TONS IN BUTTER PRODUCTION, COMMISSION OFFICIALS HAD EARLIER PREDICTED AN INCREASE OF OVER 100,000 TONS OVER THE 1976 LEVEL. HOWEVER, THEY NOW EXPECT SOME DECLINE IN BUTTER PRODUCTION - AGAIN DUE LARGELY TO THE INCREASE IN CHEESE PRODUCTION.

B) COMMISSION OFFICIALS AGREE WITH COPA THAT A SLIGHT REDUCTION IN BUTTER CONSUMPTION IS LIKELY. HOWEVER, THEY NOTED THAT THE COMMISSION MAY UNDERTAKE SPECIAL MEASURES IN THE LAST PART OF 1977 TO FURTHER INCREASE DOMESTIC CONSUMPTION OF BUTTER. (E.G. SPECIAL REDUCED PRICE YEAREND SALES).

C) COMMISSION OFFICIALS FELT THAT THE COPA EXPORT FIGURE WAS TOO HIGH ALTHOUGH BUTTER EXPORTS ARE EXPECTED TO BE CONSIDERABLY ABOVE LAST YEAR'S LEVEL.

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THEY HAD EARLIER PREDICTED A VERY SHARP INCREASE IN
END OF YEAR BUTTER STOCKS FROM 260 TO 450,000.WHILE THEY
FEEL THAT THE COPA ESTIMATES MAY BE SOMEWHAT TOO OPTIMISTIC,
THEY NOW FEEL THAT THE INCREASE IN BUTTER STOCKS WILL BE
MUCH LESS THAN FORESEEN EARLIER.HINTON

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